

Memorandum

To: CHAIR AND COMMISSIONERS

CTC Meeting: December 10-11, 2003

Reference No.: 4.13
Information Item

From: ROBERT L. GARCIA
Chief Financial Officer

Prepared by: Brice D. Paris
Chief
Division of Right of Way

Ref: **2003 ANNUAL AIRSPACE AND EXCESS LAND REPORT**

The Department of Transportation (Department) is pleased to report on the Airspace and Excess Lands Sales Program. This report highlights accomplishments over the past year, as well as current issues.

AIRSPACE

The Airspace Program leases operating right-of-way for multiple uses, including wireless tower sites. Airspace is defined as any property within the right-of-way limits of an existing operating highway, which is capable of other uses without undue interference with the operation and foreseeable future expansion of the transportation corridor, for highway or other transportation uses. The goal of the program is to maximize public and private multiple use of the right-of-way, in concert with community needs and good land-use planning. Airspace's intent is to maximize revenue and the utilization of Airspace in compliance with Department goals and objectives.

Last year the report to the California Transportation Commission (Commission) anticipated a reduction in annual airspace income primarily due to the impacts of the seismic retrofit program and the reconstruction of the west approach to the Bay Bridge in San Francisco (District 4). These construction activities, combined with the transfer requirements of SB 798 (Burton) and legislative efforts on the Transbay Terminal were expected to adversely impact some of the most profitable airspace sites.

As predicted, there was significant impact to airspace revenue. In Fiscal Year (FY) 2002-03 total revenue was \$16.3 million, down from \$20.1 million in fiscal year 01-02. Airspace revenues can be broken down between ground leases at \$13.83 million with the wireless component generating an additional \$2.44 million. Department operating expenses remained fairly stable at \$1.9 million, versus \$1.8 million in FY 2001-02.

The expense-to-gross-income ratio, one of the key performance measures of this program, was high at 11.7 percent this fiscal year, as compared to the Department's 10 percent goal and last year's 9 percent. Departmental operating expenses are tied primarily to the number of leases as opposed to revenue. The loss of only 26 land leases (586 to 560) due to the impacts described above, had a disproportionate negative impact to revenue (4 percent reduction in leases equaled a 19 percent reduction in income) as they were some of our most profitable. The increase in expense-to-gross income to ratio is a direct result.

Meeting the current 10 percent goal may be unrealistic until the Bay Bridge is complete and the final impacts of the Trans Bay Terminal transfer are understood. Due to these continuing constraints, an 11 percent expense-to-gross income ratio may be a more realistic near term goal. The Department may move closer to achieving the 10 percent goal through the continued leasing of wireless sites and an expanded airspace marketing and leasing effort, if found feasible, as outlined below.

Wireless sites however increased from 108 in FY 2001-02 to 123 in FY 2002-03. Income for the wireless program fluctuates year to year, depending on which fiscal year payments are actually made. Due to this fluctuation, average income over a period of years, is more reflective. The Department continues to approve installations of wireless sites within freeway rights-of-way and the number of approved sites has increased every year since the Program's inception.

Possessory interest taxes paid by airspace tenants to the local cities and counties this fiscal year totaled approximately \$3.9 million, versus \$4.8 million last fiscal year. The decline in possessory interest taxes is tied to the drop in gross revenues as the tax determination is calculated as a percentage of lease revenues.

Attached is a chart detailing the Program's income and expenses for the last nine years.

OPPORTUNITIES AND CONSTRAINTS

For the current fiscal year (July 1, 2003, through July 30, 2004), the Airspace program will be somewhat constrained due to budgetary limitations. The operating expense budget has been reduced by 53.4 percent from last year's \$269,609 to \$125,704. These funds cover all expenses for the staff in the program, other than salaries, including training, travel and automobile expenses, marketing and advertising expenses, consultants, independent appraisers, etc. Staffing has remained stable.

This fiscal year the Airspace Program will face similar challenges due to the continuing construction on the Bay Bridge and the pending transfer of the Transbay Terminal. Maintaining the current level of revenue from the ground leases will be a program goal.

It is anticipated that the wireless component will continue to show steady growth. The potential income from fiber optics continues to be elusive. The industry is struggling with a temporary overbuild of fiber and the Department is awaiting the outcome of litigation challenging its authority to receive compensation for telecommunications within the operating right-of-way.

In an attempt to off set revenue losses, the airspace program is studying the feasibility of a proposal that may generate additional income through a marketing and accelerated leasing program, similar to the Accelerated Excess Sales effort.

The speculative nature of leasing airspace sites and the direct impacts of economic conditions present some challenging obstacles. Availability does not necessarily result in a lease. Estimates of possible increased revenue from such a program, range from \$100,000 per annum to \$400,000 per annum. If found feasible, it is estimated that an additional \$50,000 of operating expense would have to be redirected to support this effort.

EXCESS LAND

The Excess Land Program manages the inventory and administers the disposal of real property vested in the Department, which has been determined and certified to be no longer required for rights-of-way or other operational purposes. Excess Lands staff prepare property for sale, so that it may be returned to private ownership or other public use, while generating revenues to the State Highway Account.

In FY 2002-03, the Department disposed of a total of 266 properties with a return of \$18.1 million.

In response to the current budget situation, the Department implemented an Accelerated Excess Land Sales Plan in FY 2002-03, which is in addition to our regular excess land program. The Accelerated Excess Land Sales Plan targeted properties for their revenue potential. This 18-month plan is expected to return \$35 million. At the six-month mark (January 1, 2003, through June 30, 2003), the Department is ahead of the goal originally identified with sale proceeds of \$12.5 million, or 105 percent of the target for the period.

It is expected that the sales goal of the accelerated plan requiring the sale of an additional \$22.5 million, will be achieved during the current FY 2003-04.

The Department is committed to applying the principles of concentrating resources on high value parcels to maximize the return to the State.

Attachment

AIRSPACE STATEWIDE-INCOME/EXPENSES

June 30, 2003

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
North Region									
Airspace Income*	\$1,244,520	\$1,070,056	\$1,290,013	\$1,295,303	\$1,676,252	\$1,438,285	\$1,373,823	\$3,706,335	\$1,513,234
Wireless Income				\$0	\$0	\$18,030	\$47,366	\$0	\$52,666
Expenses	\$93,542	\$145,799	\$94,466	\$98,097	\$104,811	\$119,707	\$143,751	\$149,857	\$184,997
Net	\$1,150,978	\$924,257	\$1,195,547	\$1,197,206	\$1,571,441	\$1,318,578	\$1,277,438	\$3,556,478	\$1,380,903
District 4									
Airspace Income	\$6,339,970	\$6,989,579	\$7,007,878	\$7,499,263	\$11,095,323	\$10,005,158	\$11,816,109	\$9,569,976	\$6,708,695
Wireless Income				\$373,681	\$751,603	\$528,265	\$1,754,022	\$600,819	\$1,635,479
Expenses	\$319,931	\$445,391	\$450,156	\$459,824	\$483,344	\$527,903	\$447,786	\$529,651	\$597,272
Net	\$6,020,039	\$6,544,188	\$6,557,722	\$7,039,439	\$11,363,582	\$9,477,255	\$13,122,345	\$9,641,144	\$7,746,902
Central Region									
Airspace Income	\$144,115	\$146,681	\$150,362	\$154,383	\$191,313	\$136,196	\$105,687	\$171,437	\$125,947
Wireless Income				\$0	\$0	\$81,865	\$49,517	\$77,269	\$84,832
Expenses	\$16,806	\$21,795	\$30,909	\$43,851	\$56,571	\$35,934	\$50,503	\$75,231	\$132,346
Net	\$127,309	\$124,886	\$181,271	\$110,532	\$134,742	\$100,262	\$104,701	\$173,475	\$78,433
Southern Region									
Airspace Income	\$2,874,430	\$3,093,264	\$2,760,694	\$3,006,845	\$3,797,527	\$3,214,911	\$3,698,033	\$3,698,726	\$4,192,031
Wireless Income				\$17,500	\$165,797	\$422,184	\$442,547	\$795,176	\$497,639
Expenses	\$512,105	\$550,625	\$427,732	\$400,949	\$452,683	\$432,641	\$385,858	\$564,063	\$504,959
Net	\$2,362,325	\$2,542,639	\$2,332,962	\$2,605,896	\$3,510,641	\$2,782,270	\$3,754,722	\$3,929,839	\$4,184,711
District II									
Airspace Income	\$1,336,205	\$1,075,548	\$890,340	\$982,563	\$1,263,188	\$1,005,290	\$1,213,536	\$1,335,759	\$1,291,950
Wireless Income				\$62,509	\$38,568	\$62,558	\$84,633	\$160,541	\$175,899
Expenses	\$299,635	\$255,009	\$108,701	\$84,302	\$121,780	\$216,189	\$211,869	\$255,257	\$188,504
Net	\$1,036,570	\$820,539	\$781,639	\$898,261	\$1,179,976	\$789,101	\$1,086,300	\$1,241,043	\$1,279,345
Statewide									
Airspace Income	\$11,939,240	\$12,375,128	\$12,099,287	\$12,938,357	\$18,023,603	\$15,799,840	\$18,207,188	\$18,482,233	\$13,831,857
Wireless Income				\$453,690	\$955,968	\$1,112,902	\$2,378,085	\$1,633,805	\$2,446,515
Expenses**	\$1,558,995	\$1,611,255	\$1,286,571	\$1,373,341	\$1,597,410	\$1,680,241	\$1,526,151	\$1,799,409	\$1,917,506
Net	\$10,380,245	\$10,763,873	\$10,812,716	\$11,565,016	\$16,426,193	\$15,232,501	\$19,059,122	\$18,316,629	\$14,360,866

NOTES:

*Reflects lump sum payment of \$2.1M in FY 2001-02 from new PERS lease

**Statewide expenses include HQ overhead for airspace activities.